
Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
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Renewable Fuels and Co-Products Program

ISSUE

Iowa commits \$4.0 million of motor vehicle Use Tax receipts annually to value-added agriculture through the Value-Added Agriculture Products and Processes (VAAPP) Program of the Department of Economic Development (DED) and the Renewable Fuels and Co-Products Program of the Department of Agriculture and Land Stewardship (DALs). The Renewable Fuels and Co-Products Program is reviewed here. The VAAPP Program is discussed in a separate *Issue Review*.

AFFECTED AGENCIES

Department of Economic Development
Department of Agriculture and Land Stewardship

CODE AUTHORITY

Section 423.24(1)(b), Code of Iowa
Section 15E.111, Code of Iowa
Chapter 159A, Code of Iowa

BACKGROUND

Senate File 2385 (Value-Added Agricultural Products and Processes Act), enacted by the 1990 Legislative Session, created the **VAAPP Program**. The Program was funded by an initial allocation of \$209,000 from the DED's Iowa Community Development Loan Fund.

Senate File 545 (Renewable Fuels Act), enacted by the 1991 Legislative Session, created the **Renewable Fuels Fund and the Office of Renewable Fuels** within the DALs. House File 2456 (Ethanol Production Act), enacted by the 1992 Legislative Session, allocated \$4.0 million from motor vehicle Use Tax receipts to the DALs Renewable Fuels Fund, beginning in FY 1994 and ending with FY 1998. House File 2337 (Agricultural Development and Rural Revitalization Act), enacted by the 1994 Legislative Session:

- Extended the \$4.0 million Use Tax allocation through FY 2000.
- Amended the DED's Value-Added Agricultural Products and Processes Program and allocated 91.25% (\$3,650,000) of the annual Use Tax allocation to the VAAPP Fund.

- Reduced the funding for the Renewable Fuels Program to 8.35% (\$350,000 per year) of the Use Tax allocation. Prior to FY 1994, the Renewable Fuels Program was funded through an allocation from the Farm Commodity Division's General Fund appropriation.

Sections 5 through 9 and 11 through 15 of SF 391 (FY 1998 Transportation, Capitals, and Infrastructure Appropriations Act), enacted by the 1997 Legislative Session continued funding of both Programs by providing a standing General Fund appropriation of \$3,650,000 to the VAAPP Program and \$350,000 to the Renewable Fuels and Co-Products Program, beginning in FY 2001.

CURRENT SITUATION

The Renewable Fuels and Co-Products Program and Fund are created in Chapter 159A, Code of Iowa. The Office of Renewable Fuels and Co-Products is created in Section 159A.3 and 159A.4. Those Sections also create an Advisory Committee, Coordinator position, and provide the duties and goals of the Office, Coordinator, and Committee. The Fund is created in Section 159A.7 and the use of the money in the Fund is limited to financing the Coordinator, Advisory Committee, research, and financial assistance. Further, the Fund's use is restricted to:

1. At least 40.0% (\$140,000 per year) shall be used to support education, promotion, and advertising of renewable fuels and co-products. For an FY 1997 list of expenditures, see **Attachment 1**.
2. Up to 30.0% (\$105,000 per year) may be used to support research at the three State universities. During FY 1997, the DALs reports the following research projects received financial support:
 - University of Iowa - Development of an on-board ethanol reformer for automobiles, \$25,000.
 - Iowa State University with the Iowa Soybean Association - Investigation of unburned hydrocarbon emissions and fuel stability from biodiesel-fueled engines, \$25,000.
 - Marketing Research with the Governor's Ethanol Coalition and the Department of Natural Resources, \$5000.
3. Up to 1.5% of the Use Tax allocation may be used for administration. This has been interpreted to be 1.5% of the \$4.0 million allocation to both the Renewable Fuels Program and the VAAPP Program (\$60,000 per year). This translates to 17.1% of the \$350,000 allocation to the Renewable Fuels Program.
4. Any remaining funds shall be used for technical assistance to persons interested in developing value-added renewable fuels and co-products industries in Iowa. For an FY 1997 list of financial assistance, see **Attachment 2**.

From FY 1994 (the year the current Program and funding were established) to FY 1997, the Program received \$1.5 million in revenue. As categorized by the DALs, the revenue has been expended or remains as follows (**Attachment 3, Table 2**):

- Promotion, education, & advertising - - \$538,000 (36.8%)
- Research - - \$127,000 (8.7%)
- Administration and Conference expenses - - \$264,000 (18.2%)

- Technical assistance - - \$244,000 (16.7%)
- Remaining balance - - \$285,000 (19.6%)

The administrative rules for the Technical Assistance Program (item 4 above) are found in 21 Iowa Administrative Code, Chapter 12. The rules specify the purpose of the Renewable Fuels and Co-Products Program is to encourage the renewable fuels and co-products industry of Iowa by providing specific funding for technical assistance to any person located or desiring to locate in Iowa.

Renewable Fuel is defined as an energy source at least in part derived from an organic compound, capable of powering machinery, including an engine or power plant. **Co-products** is defined as a product other than a renewable fuel which at least in part is derived from the processing of agricultural commodities, and which may include corn gluten feed, distillers of grains or solubles, or can be used as livestock feed or a feed supplement.

The rules state that the purpose of the Fund is to provide financial support for planning, technical assistance, and feasibility studies for persons interested in developing renewable fuel or co-products industries in Iowa. The rules specify the following Program qualifications and available assistance:

- The applicant must be interested in developing a value-added industry in Iowa by:
 - Producing a product, or using a new process to produce a product, from an agricultural commodity which was not previously produced from that commodity.
 - Establishing or expanding a renewable fuel production facility.
- Assistance is available as follows:
 - Up to \$1,000 for a contracted consulting agency to perform an initial consultation and assessment of the project. The DALS has contracted this service with the Small Business Development Centers operated by Iowa State University.
 - Up to \$24,000 for feasibility studies, planning, and technical assistance for each project's business plan. Once the business plan is completed, the applicant may apply for assistance through DED's VAAPP Program. An applicant is not required to receive assistance through the DALS Renewable Fuels Program to be considered by the VAAPP Program. During FY 1997, the DALS reports that of 54 projects which received a total of \$45,758 in technical assistance funding from DALS, 24 received a total of \$4,763,500 in assistance from the VAAPP Program (**Attachment 2**).
 - Any and all additional costs shall be paid by the applicant. However, an applicant may apply for further financial assistance through the DED's VAAPP Program.

The Renewable Fuels Fund had an FY 1997 ending balance of \$285,000 and utilized 1.0 FTE positions in FY 1997. **Attachment 3, Table 1** provides the historical revenue, expenditures and fund balance of the DALS Renewable Fuels Fund.

ALTERNATIVES

In addition to the Renewable Fuels and Co-Products and VAAPP Programs, financial assistance for value-added agriculture processes and production may be available through the following State programs.

- DED's Industrial New Jobs Training Program (Chapter 260E)
- DED's Jobs Training Program (Chapter 260F)
- DED's Community Economic Betterment Account (CEBA) Program (Section 15E.315)
- DED's Enterprise Zone Program (HF 724 [Enterprise Zone Act], enacted by the 1997 Legislative Session)
- DED's Community Development Block Grant Economic Development Set Aside Program (federal aid pass-through)
- DED's New Jobs and Income Program (Chapter 15A)
- DED's Workforce Development Fund (Section 15.343)
- Department of Transportation's Revitalize Iowa's Sound Economy (RISE) Program (Chapter 315)

BUDGET IMPACT

This *Issue Review* is presented for informational purposes only.

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FY97 Advertising, Education, and Promotional Expenditures

Date	Vendor	Description	Revamp	Ethanol Biodiesel	Value Added
7/96	Wallace-Homestead	Adding Value Booklet -10,000			\$2,663.03
7/96	Ideal Printing	Calendars - 7,500			\$3,370.00
8/96	Ideal Printing	Calendars - 5,000			\$2,000.00
8/96	Essman	Calendar Production			\$635.00
9/96	Essman	Calendar production Ethanol key rings - 25,000 Library reference book prod. CD-I video Newspaper Advertising Ethanol magnets - 25,000		\$12,500.00 \$ 522.10 \$ 5,750.00	\$437.50 \$1,281.90 \$ 4,312.50
9/96	Ideal Printing	Calendar production			\$397.00
0.09	ICPB & DNR	E-85 consultant fees		\$10,000.00	
11/96	Geo Metro	Geo Metro Ethanol Challenge		\$5,000.00	
12/96	Essman/Associates	Library reference book - 1,000 Ethanol key rings - 25,000		\$12,500.00	\$22,000.78
12/96	Petroleum Mkters	MTBE decal		\$.60	
1/97	Essman/Associates	Revamp print ad production Revamp newspaper inserts	306.15 \$7,890.94		
3/97	Essman/Associates	Newspaper inserts CDI to video - 1,100 tapes	\$14,116.66	\$3,322.60	\$8,941.25
4/97	AVW Group	Projector for presentations			\$7,036.89
4/97	Essman/Associates	Revamp newspaper inserts	\$2,007.78		
5/97	GE Capital	Laptop computer, presentations			\$7,661.00
5/97	ICPB	Joint radio promotion		\$25,406.34	
5/97	Flynn/Wright, Inc.	Artwork for calendars, etc.			\$10,000.00
6/97	GE Capital	Computer - video card			\$110.09
7/97	Essman/Associates	Media CD-i - purchase slides	\$188.70	\$114.66	\$223.13
7/97	Essman/Associates	Drivers Education Video presentation		\$2,147.00	\$2,656.25
7/97	Essman/Associates	Drivers Education video		\$23,578.00	
		TOTALS	\$199,082.47	\$24,510.23	\$100,846.70
					\$73,725.54

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SOURCE: FY 1997 Office of Renewable Fuels and Co-Products Annual Report

REVAMP and VAAPFAP PROJECT STATUS REPORT

FY97 - As of June 30, 1997

Initial Agency	No.	Applicant	City	Commodity	Project Type	SBDC	Revamp Awards	VAAPFAP Awards	VAAPFAP Grant/FL	VAAPFAP Loan	Project Creation
IDALS	131	Next Generation Distiller	Templeton	Grains	Rye whiskey	Audubon					
IDALS	132	Brink Seed, Inc.	Hubbard	Corn	Seed for fuel	Cedar Falls	\$1,000				
IDALS	133	Wildflowers by Wubben	Mason City	Misc.	Mkt prairie seed	Mason City	\$625	\$10,000	\$10,000		
IDALS	134	Allsap Firewood	Richland	Forestry	Firewood system	Ottumwa	\$625	Denied			
IDED	135	Manildra Energy Corp	Hamburg	Corn	Specialty alcohols		\$125	\$900,000	\$200,000	\$700,000	
IDED	136	Ostrich Prod. Coop MW	Decorah	Ostrich/Emu	Ostrich meat mktg		\$125	Denied			
IDALS	137	Cox/Soap Creek Sawmill	Unionville	Forestry	Pine log products	Ottumwa	\$625	Denied			
IDALS	138	Tabor Family Winery	Dubuque	Misc	Grape winery	Dubuque	\$1,105	\$95,000	\$95,000		
IDALS	139	Family Tree Furniture	Albia	Forestry	Furniture maker	Ottumwa	\$1,125	\$50,000	\$50,000		
IDALS	140	Minsa Corp	Red Oak	Corn	White tortilla proc.	Creston					
IDED	141	Kerns Farms	Clearfield	Manure	Hog waste syst.		\$125	Denied			
IDED	142	Great Lakes Chemical	Omaha	Misc	Biomass supplies		\$125	\$100,000	\$100,000		
IDED	143	Prototec, Inc.	Canada	Meat	Processing		\$125	\$250,000	\$150,000	\$100,000	
IDED	144	IA Turkey Growers Coop	Ellsworth	Poultry	Turkey processing		\$125	\$900,000	\$200,000	\$700,000	
IDED	145	Sioux BioChemical/NOBL	Sioux Center	Hogs	Pork tissue proc.		\$125	\$95,000	\$50,000	\$45,000	
IDED	146	Oxley's Percherons	Sac City	Horse	Urine processing		\$125	\$20,000	\$20,000		
IDALS	147	Specialty Tanning	Boone	Ostrich/Emu	Ostrich tanning	Ames-See176					
IDED	148	Lizzie Loins & Fritters	Promise City	Meat-pork	Processed pork	See #118	\$125	Denied			
IDED	149	BioResource	Chariton	Manure	Processing	Ottumwa	\$1,125	Denied			
IDED	150	PenWest Foods	Cedar Rapids	Misc	Potato processing		\$125	Denied			
IDALS	151	Gateway Nat. Meats	Bellevue	Meat	Organic process	Dubuque					
IDALS	152	Jack Miller	Bettendorf	None	None						
IDALS	153	Gordy / Soap Creek Mill	Moulton	Corn	Range cube feed	Ottumwa	\$1,125	Denied			
IDED	154	Green Genie, Inc.	Des Moines	Forestry	Tree propropagation		\$125	Denied			
IDED	155	Fibred-Iowa, Inc.	Iowa Falls	Soybeans	Hull processing		\$125	\$250,000	\$150,000	\$100,000	
IDALS	156	Schmitz Custom Woods	Albia	Forestry	Walnut molding	Ottumwa					
IDED	157	Natural Products, Inc	Grinnell	Soybeans	Food custom mill	Ames	\$125	\$250,000		\$250,000	
IDALS	158	Five Star Emu, Ltd	Wapello	Ostrich/Emu	Ostrich meat proc.	Burlington					
IDALS	159	Iowa Soy Specialties	Vinton	Soybeans	Low fat flour	Cedar Rapids	\$2,000	\$24,000			\$24,000
IDALS	160	Del Deans	Denison	Meat-pork	Pork Restaurant	Pending					
IDALS	161	First Wool Shop	Cedar Rapids	Sheep	Wool felt process	Cedar Rapids					
IDALS	162	Ostrich Coop of Iowa	Ogden	Ostrich/Emu	Ostrich prod. mktg	Ames					

SOURCE: Fy 1997 Office of Renewable Fuels and Co-Products Annual Report

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IDALS	20	Lee Seeds	Inwood	Soybeans	Soy nut process	Spencer	\$125				
IDALS	25	Lincolnway Flowers	Lowden	Misc	Herb processing	Davenport					
IDALS	31	MLT Meats	Marcus	Meat-pork	Lean sausage	Sioux City	\$1,855	Denied			
IDALS	37	Welsh Family Farm	Lansing	Meat	Organic processin	Dubuque	\$540				
IDALS	39	Elite Genetics	Waukon	Sheep	AI system	Dubuque	\$810				
IDALS	61	Wapsi River Ranch	Riceville	Meat-bison	Buffalo meat proc.	Mason City	\$125				
IDALS	62	Fayette County Devel.	West Union	Manure	Compost project	Cedar Falls	\$3,100				
IDALS	63	Prichard, Phil	Davenport	Meat	Multi-specie proc	Iowa City	\$1,000				
IDALS	92	SW Soy Cooperative	Corning	Soybeans	Soy processing	Creston	\$16,500				
IDALS	94	Indee, L.C.	Independence	Soybeans	Tofu cheesecake	Cedar Falls					
IDALS	98	Maple Vale Farms	Ely	Sheep	Wool/lamb product	Cedar Rapids					
IDED	101	J.C. Enterprises	Council Bluffs	Corn	BBQ sauce		\$125				
IDED	102	NOBL Lab	Sioux Center	Meat-pork	Pork meat product		\$125				
IDALS	105	Sundance, Inc.	Sioux City	Ostrich/Emu	Ostrich prod. mktg	Sioux City					
IDALS	106	The Butcher Shop	Audubon	Ostrich/Emu	Processing	Audubon	\$125				
IDALS	108	BioResource Recovery	Iowa City	Manure	Fert/recycling	Iowa City	\$1,125				
IDALS	109	Christman Ostrich Farm	Bronson	Ostrich/Emu	Ostrich meat mktg	Sioux City	\$430				
IDALS	110	Glenn's Natural Meats	Latimer	Meat-pork	Natural pork prod.	Mason City	\$1,125	\$40,000	\$40,000		
IDED	113	Natural Chem Ind. /SW	Houston, TX	Corn-ethanol	Glycerine/ethanol		\$125				
IDED	114	LamPost Meats	Des Moines	Meat-pork	Pork chitterlings		\$125				
IDALS	115	Kane Mfg/Chemtec	Des Moines	Manure	Odor control	Ames	\$3,463	\$50,000	\$50,000		
IDALS	117	Acasa Design	Fairfield	Soybeans	Soy Foam	Ottumwa	\$250				
IDALS	118	Timothy McTague	Promise City	Meat-pork	Pork products	Ottumwa	\$125				
IDALS	119	Applied Ag Tech	Amana	Corn-ethanol	Ethanol plant	Cedar Rapids					
IDALS	122	Alceco Elevator	Albert City	Grains	Specialty storage	Spencer	\$125				
IDALS	124	Cedar Prospects	Council Bluffs	Forestry	Cedar oil process	Council Bluffs	\$125	\$27,500	\$27,500		
IDALS	125	Gilbertville Grain Center	Jesup	Grains	Specialty storage	Cedar Falls	\$2,205				
IDED	126	Iowa Oat Processors	Chelsea	Grains	Oat processing		\$125	\$200,000	\$140,000	\$60,000	
IDED	127	MBS	Story City	Grains	InfraRed analyzer		\$125				
IDED	128	Ag Processing (AGP)	Sargent Bluff	Soybeans	Biodiesel process		\$125				
IDED	129	Precision Beef Alliance	Oakland	Meat-beef	Retail marketing		\$125				
IDED	130	Mid-Ag	Red Oak	Meat-beef	Processing			\$700,000	\$200,000	\$500,000	

REVAMP and VAAPFAP PROJECT STATUS REPORT

FY97 - As of June 30, 1997

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IDALS	163	Ronald Mells	Des Moines	Corn	Stalks to paper	Pending					
IDALS	164	Summerset Winery	Indianola	Misc	Winery - grapes	Ames					
IDALS	165	Fairview Farms	Corwith	Soybeans	Process/Export	Spencer					
IDALS	166	Candleworks	Iowa City	Corn-Beans	Oils in candles	Iowa City					
IDALS	167	Nature's Furnace	Ames	Misc	Biomass fuel	Ames					
IDED	168	IA Pacific Processors	Des Moines	Meat-beef	Packaging/sales		\$125	\$247,000	\$147,000	\$100,000	
IDALS	169	Affiliated Hardwoods	Denmark	Forestry	Short log constr.	Pending					
IDALS	170	Sustainable Science In.	Iowa City	Forestry	Pole/short log con.	Iowa City					
IDALS	171	SW IA Grow/Processors	Afton	Manure	Nutrients for food	Pending					
IDED	172	Genetic ID	Fairfield	Corn-Beans	Grain genetic tester		\$125	Denied			
IDED	173	Agri-Industries	W. Des Moines	Soybeans	Hydraulic fluid		\$125	\$110,000	\$110,000		
IDED	174	Emerald Hill Ostrich	Newton	Ostrich/Emu	Leather processing	Des Moines					
IDED	175	MBS	Story City	Corn-Beans	NIR units		\$125	\$200,000	\$200,000		
IDED	176	Specialty Leather	Boone	Ostrich	Specialty tanning	See #147	\$125	\$50,000	\$50,000		
IDED	177	Elite Visions	Waukon	Sheep	AI scope		\$125	Denied			
IDALS	178	Nishnaland Seed Mgmt	Shenandoah	Corn-Beans	Seed conditioning	Creston					
IDALS	179	agren, inc.	Carroll	Manure	Manure brokering						
IDED	180	Anaerobic SBR	Ames	Manure	Demo w/ISU patent			\$130,000			\$130,000
IDED	181	SW IA Egg	Massena	Poultry	Egg production			\$50,000			\$50,000
IDED	182	Iowa Meat Processors	Ames	Meat	Train sm processors			\$15,000			\$15,000
TOTALS						TOTALS	\$45,758	\$4,763,500	\$1,989,500	\$2,555,000	\$219,000
							Revamp Awards	VAAPFAP Awards	VAAPFAP Grant/FL	VAAPFAP Loan	Project Creation

DALS Renewable Fuels and Co-Products Fund

Table 1

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>Total</u>
Beginning Balance	\$ 0	\$ 321,538	\$ 339,227	\$ 287,252	\$ 0
Revenue					
Use Tax	\$ 350,000	\$ 350,000	\$ 351,965	\$ 341,250	\$ 1,393,215
Interest	1,538	24,626	22,035	18,225	66,424
Insurance Reserve Fund	0	0	0	177	177
Total Revenue	<u>\$ 351,538</u>	<u>\$ 374,626</u>	<u>\$ 374,000</u>	<u>\$ 359,652</u>	<u>\$ 1,459,816</u>
Expenditures					
Salaries & Benefits	\$ 0	\$ 48,023	\$ 48,109	\$ 51,327	\$ 147,460
State Universities	0	65,737	51,633	67,468	184,838
Community Colleges	0	4,525	71,215	28,615	104,355
Dept. of Natural Resources	0	0	40,000	15,000	55,000
State Central Agencies	0	7,508	8,264	6,393	22,165
DALS	30,000	0	0	0	30,000
Iowa Corn Promotion Board	0	26,910	27,435	25,406	79,752
Iowa Soybean Association	0	400	25,400	0	25,800
Essman/Associates	0	174,213	88,836	125,332	388,381
Circlewest Incubator	0	10,060	26,000	0	36,060
Iowa Lakes Electric Coop	0	0	24,000	0	24,000
Patricia Paustian	0	3,408	3,747	4,585	11,740
Flynn Wright, Inc.	0	0	0	10,000	10,000
Kragie-Newell Advertising	0	5,000	0	5,000	10,000
Other Expenditures	0	16,001	11,095	26,327	53,423
Corrections and Adjustments	0	-4,848	240	-3,550	-8,159
Total Expenditures	<u>\$ 30,000</u>	<u>\$ 356,937</u>	<u>\$ 425,975</u>	<u>\$ 361,903</u>	<u>\$ 1,174,816</u>
Ending Balance	<u>\$ 321,538</u>	<u>\$ 339,227</u>	<u>\$ 287,252</u>	<u>\$ 285,000</u>	<u>\$ 285,000</u>

Expenditures by Category *

Table 2

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>Total</u>
Administration	\$ 30,000	\$ 62,536	\$ 55,808	\$ 60,769	\$ 209,113
Promotion, Education, & Advertising	0	189,004	149,544	199,082	537,630
Research	0	25,000	47,300	55,000	127,300
Technical Assistance	0	25,035	173,324	45,758	244,117
Ethanol & Co-Products Conference	0	55,362	0	0	55,362
Total	<u>\$ 30,000</u>	<u>\$ 356,937</u>	<u>\$ 425,976</u>	<u>\$ 360,609</u>	<u>\$ 1,173,522</u>

* Information provided by the DALs. In addition, DALs reports \$65,752 in Renewable Fuels Office expenses for FY 1992 through FY 1994, paid by the State General Fund. There is a \$1,293 difference between the State accounting system and DALs reports during FY 1997.